

GordonTLong.com

## WATCHING “FANG & NOSH”

ANALYTIC INSIGHTS

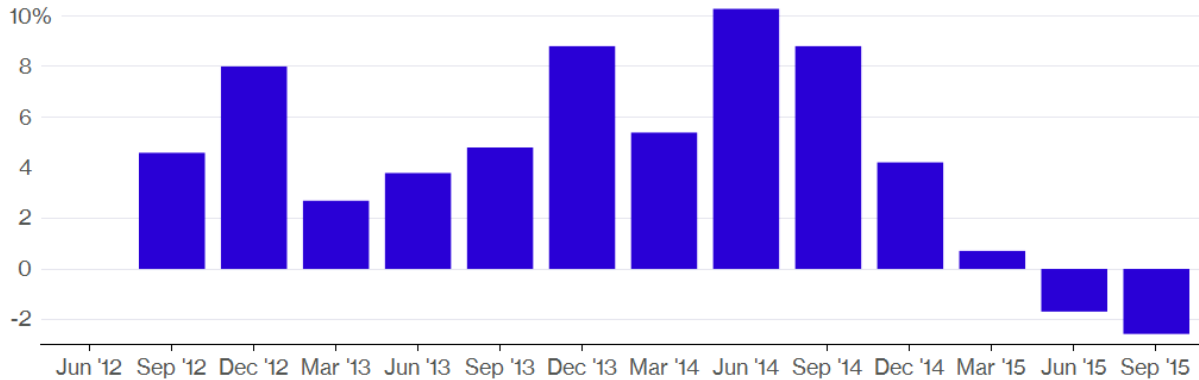


## WATCHING "FANG & NOSH"

WE WARNED OF EARNINGS PROBLEMS AHEAD

### U.S. Earnings Losing Steam

3Q Season Set to Post Biggest Drop in Profits Since 2009

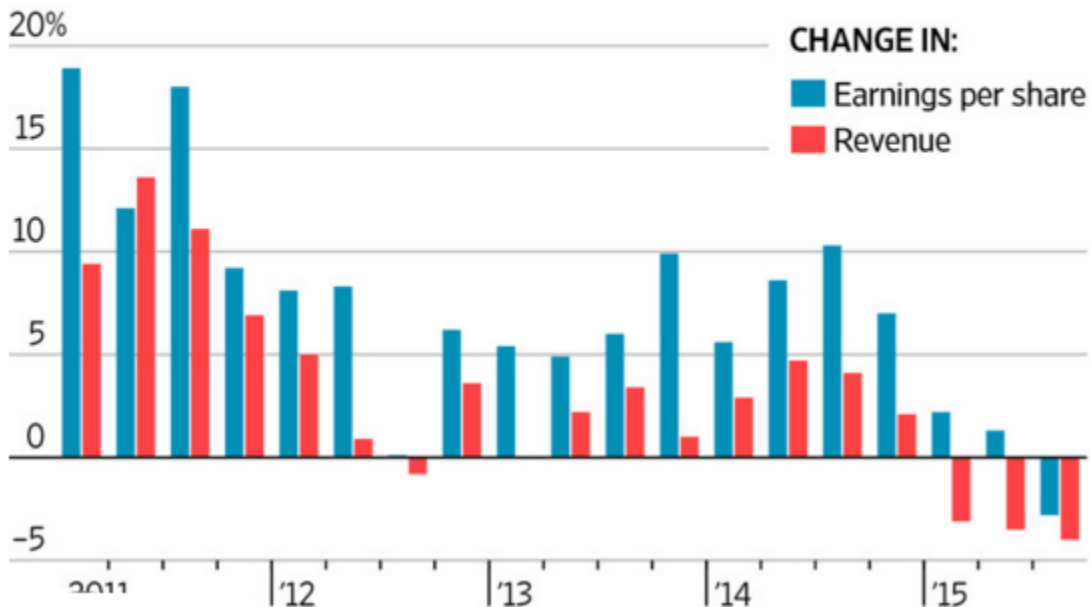


U.S. quarterly EPS growth y/y; data compiled by Bloomberg

Bloomberg

### Gloomy Estimate

Change from a year earlier in quarterly earnings and revenue for companies in the S&P 500.

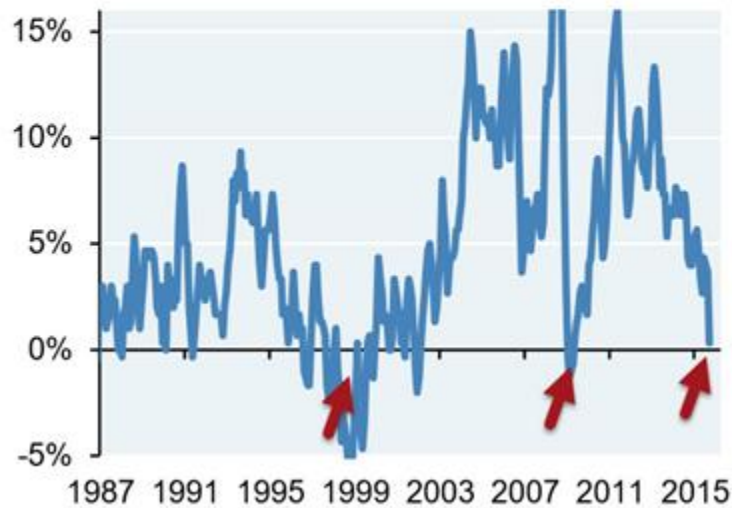


## MARKETS ARE REACTING



## SMALL BUSINESS SENTIMENT & CONFIDENCE DOESN'T BODE WELL!

**Proxy for small business operating margin trends, Net % planning to raise prices less net % planning to raise wages**



## THE EXPECTED PROBLEMS IN US RETAIL HAVE ARRIVED

The S&P Retail Sector ETF is down almost 9% in the last 8 days. That is the fastest collapse in this bellwether industry since August 2011... **and it may be about to get a lot worse...**

Retail is back to flash crash lows...



Its biggest 8-day drop since August 2011...





And it's about to get a lot worse...



### THE GLOBAL A/D LINE IS TROUBLING

A major bearish divergence for global A-D line in US Dollars

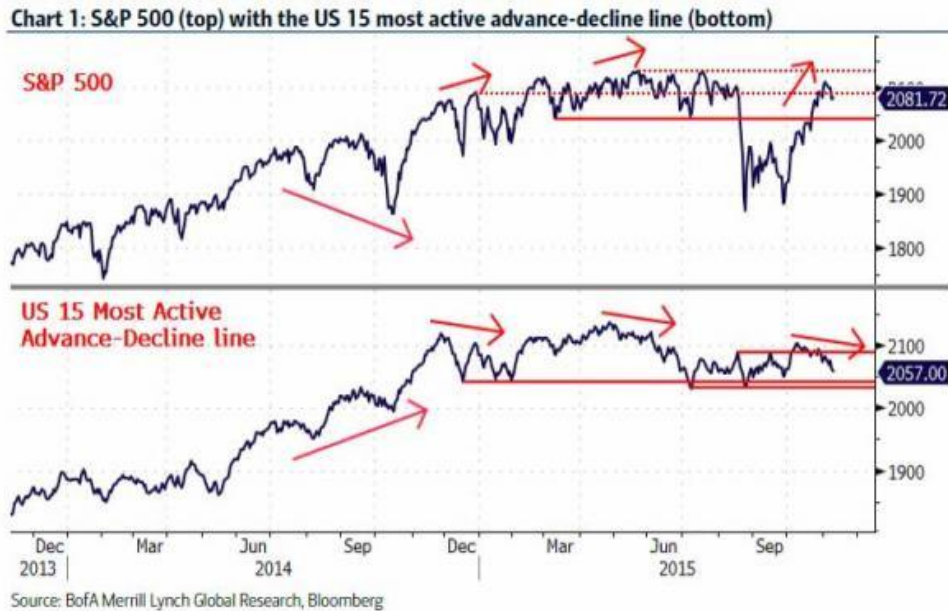
**Chart 3: MSCI ACWI (top) & weekly global A-D line in US Dollars (bottom) – weekly chart**



Source: BofA Merrill Lynch Global Research, Bloomberg

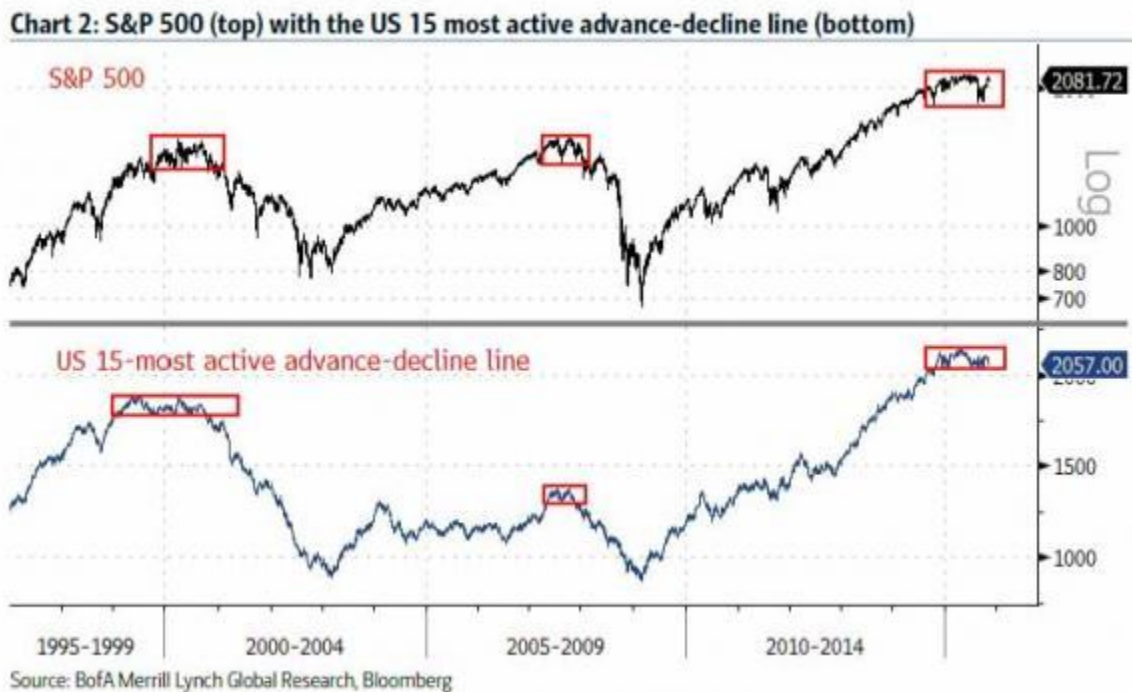
## THE US A/D LINE IS ALSO TROUBLING

A month-long bearish divergence for the US 15 most active advance-decline line



## WE HAVE SEEN THIS LEVEL OF LOST MOMENTUM BEFORE

A-D line preceded or coincided with big breakdowns for the S&P 500 in 2000 and 2007

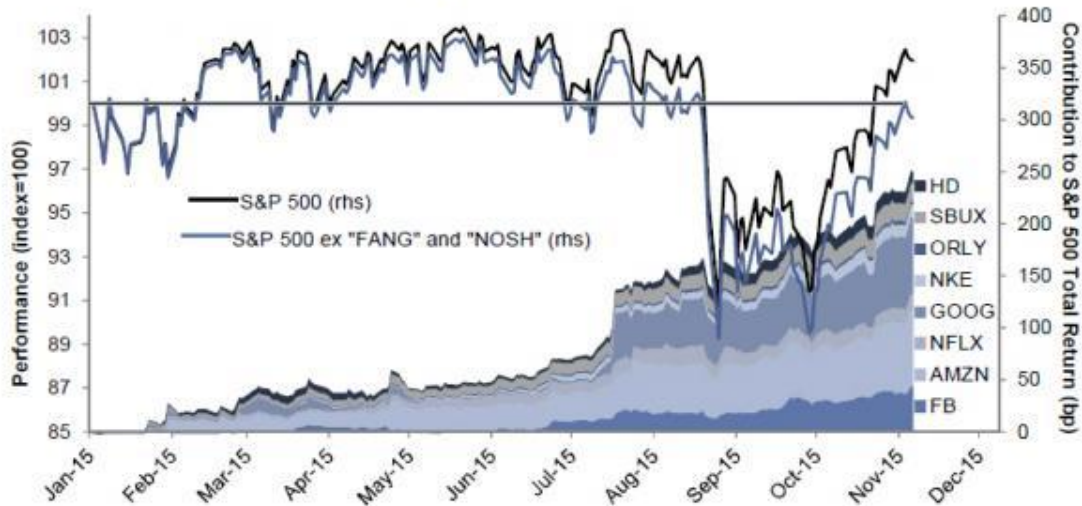


NYSE Advance-Decline Line versus S&P



THE MARKET IS HELD UP BY 8 "SUSPECT" STOCKS – MEET: "FANG" & "NOSH"

**Exhibit 5: If not for "FANG" and "NOSH", the S&P 500 would be down YTD**  
"FANG": Facebook, Amazon, Netflix and Alphabet (GOOG/GOOGL) "NOSH": Nike, O'Reilly, Starbucks and Home Depot



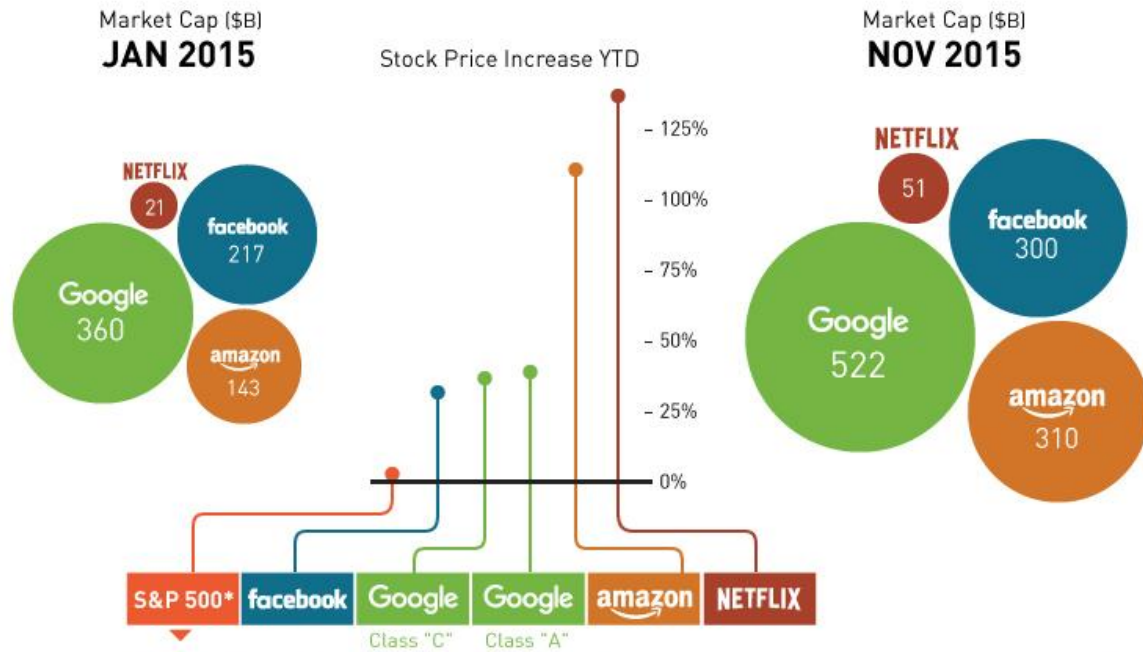
Source: FactSet, Goldman Sachs Global Investment Research.



## Chart of the Week

### MARKET HAS NO BITE WITHOUT "FANG" STOCKS

Facebook, Amazon, Netflix, and Google created >\$440B value over 2015



\*Despite the performance of the "FANG" stocks, the overall market remains flat YTD.





## THE "STOCK BUYBACK" GAME MAY BE ENDING



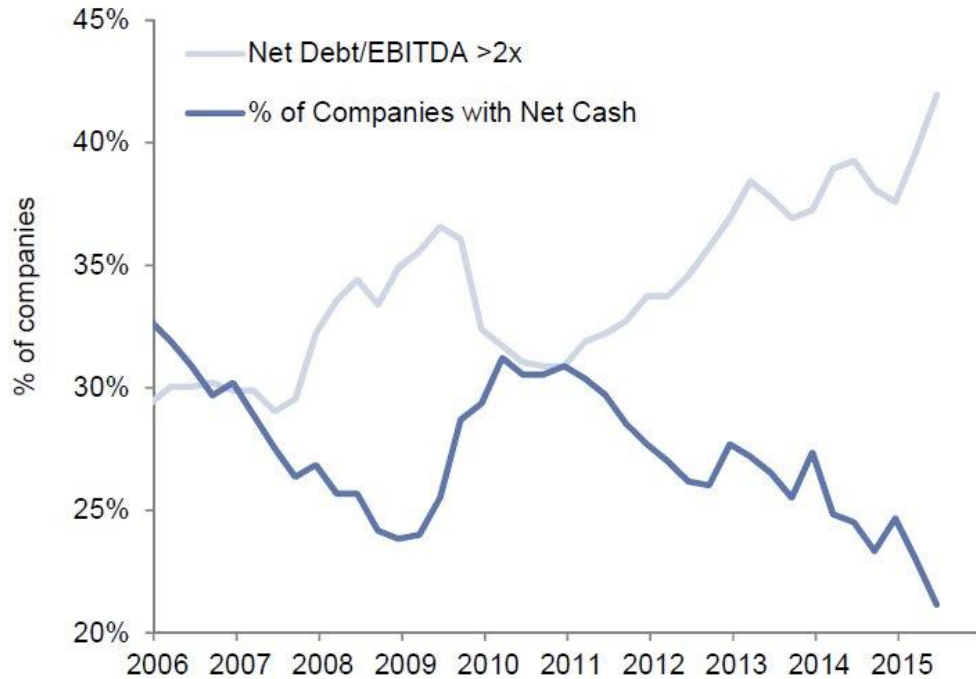
## THE "STOCK BUYBACK" GAME MAY BE ENDING CASHFLOW VERSUS DEBT LEVELS



Net EBITDA 2x Highest since 2006 % of companies with net cash Lowest since 2006

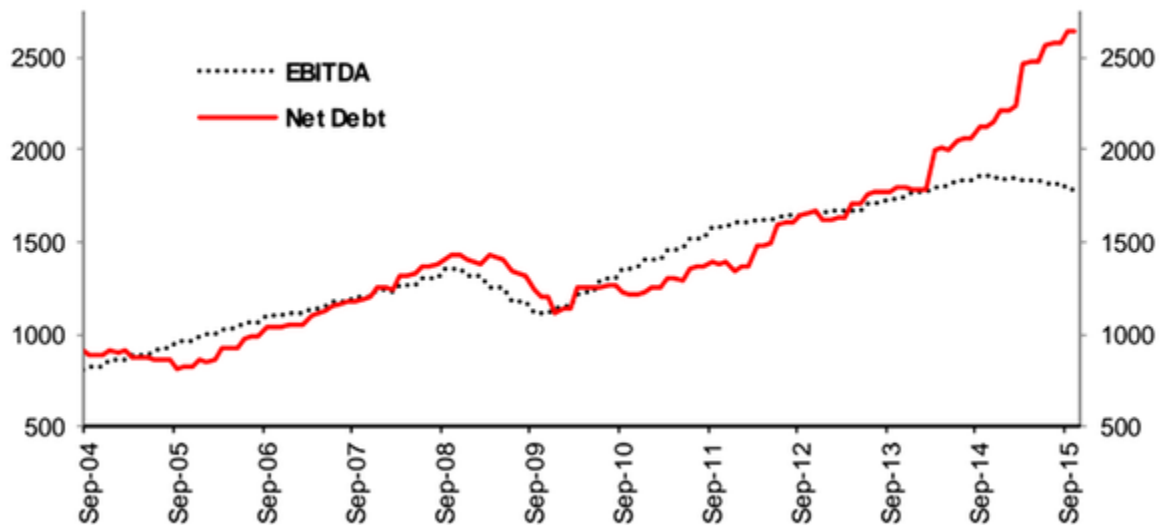
### Exhibit 29: "Net Cash" companies are increasingly scarce

% companies with leverage (ND/EBITDA) above 2x vs. % net cash; GS coverage



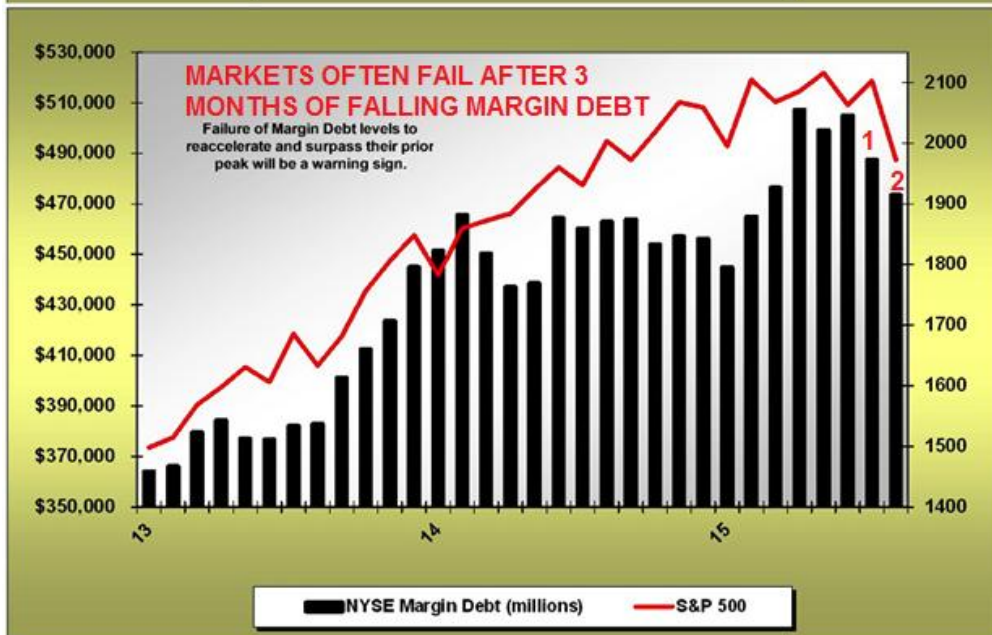
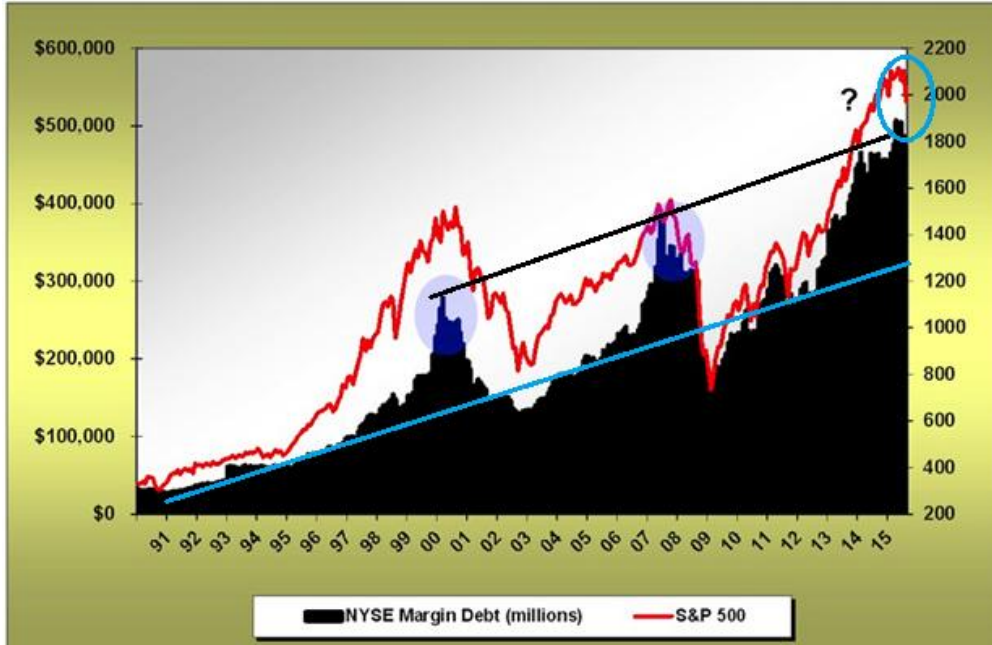
Source: Goldman Sachs Global Investment Research.

### US corporate net debt has exploded and massively exceeds EBITDA (\$bn, S&P 1500 ex fins)



Source: SG Cross Asset Research/Equity Quant

## FALLING MARGIN DEBT SUGGESTS MARKET PROBLEMS ARE LOOMING



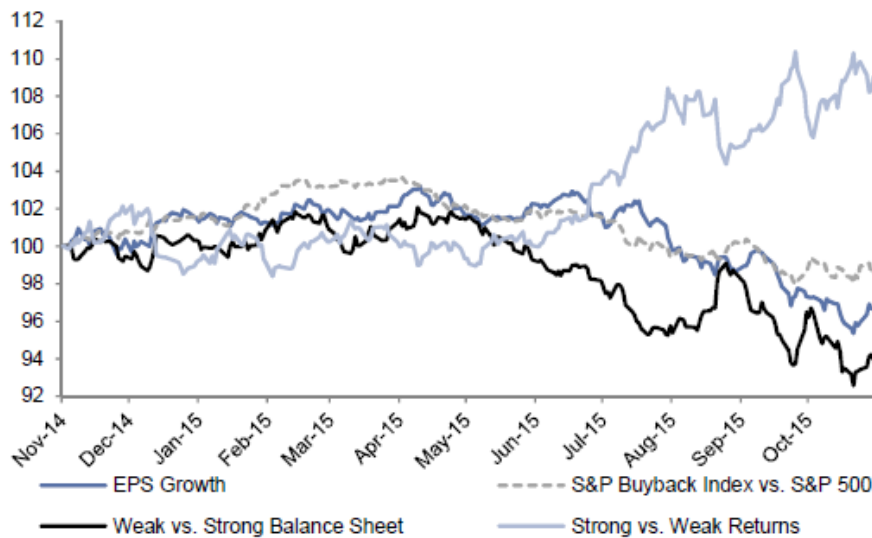
## WHAT ARE THEY SO WORRIED ABOUT?



Source: NYSE, Zero Hedge

## MARKET STARTING TO REWARD RETURNS

**Exhibit 26: As the market has grown more cautious around leverage, EPS growth and buybacks it has started to reward strong returns**  
 EPS growth, balance sheet and returns are market-neutral (top 20% vs. bottom 20%)

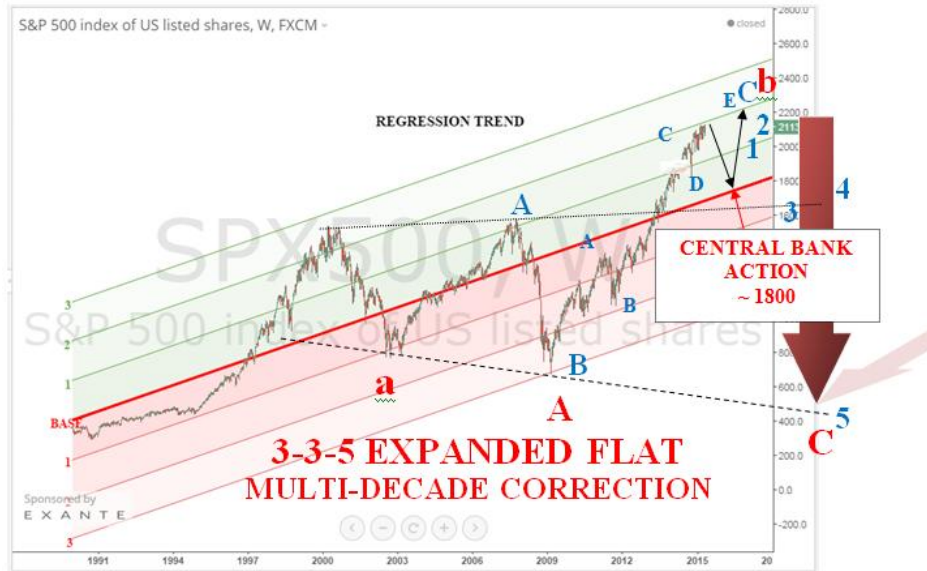


Source: Goldman Sachs Global Investment Research.



### LONGER TERM VIEW

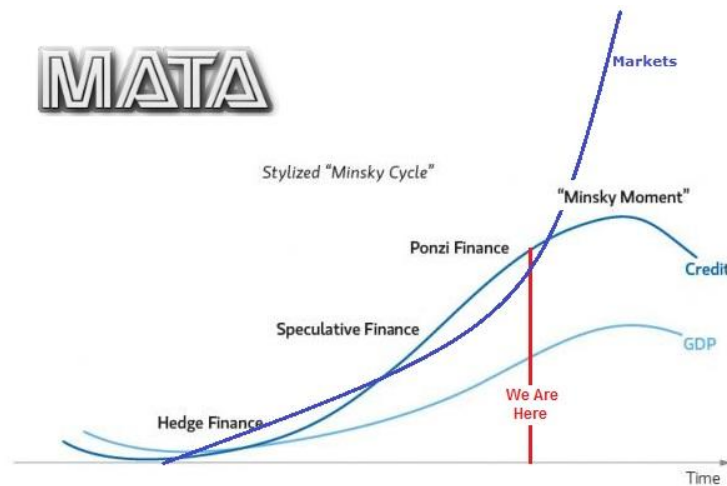
Sometime in 2016, after the central bankers have had another shot at QE, helicopter money and collateral guarantees it will end - badly



### HAVEN'T CHANGED OUR POSITION

After the near term expected correction we still expect markets to head higher towards a "Minsky Moment" in 2016.

This is based on the assumption that Central Banks will react to any deterioration in the financial markets with yet another round of crisis driven liquidity pumping!





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